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RUEATRS/DEPT OF TREASURY WASHDC  
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FOR GABORONE PASS PDROUIN  
STATE PASS USAID FOR NFREEMAN, GBERTOLIN  
STATE PASS EXIM FOR JRICHTER, KJACKSON  
STATE PASS OPIC FOR ZHAN, MSTUCKART, JEDWARDS  
STATE PASS TDA FOR LFITTS, PMARIN  
DOC FOR 3317/ITA/OA/KBURRESS  
DOC FOR 3310/USFC/OIO/ANESA/DHARRIS  
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TREASURY FOR RHALL, DPETERS

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SUBJECT: NIGERIA: REAL ESTATE DEVELOPMENT PLOWS AHEAD, WHILE HEDGING  
FOR MORE RISKS FROM ECONOMIC SLOW DOWN

11. (SBU) Summary: Given Nigeria's housing shortage crisis of 16 million units, demand for real estate development has not waned in this economic downturn. CityScape, a Nigerian real estate firm, is developing 6 projects in Lagos and Ogun States, 2 in Rivers State, and 1 in Abuja, and is showing no sign of slowing down. The depreciation of the naira has yet to affect construction costs; however, developers are hedging for more risks. More companies are looking to enter the Nigerian real estate market. There appears to be a bubble in rental and land prices that seems not to be the case in construction projects. End Summary.

Demand High Despite Economic Downturn  
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12. (SBU) Scott Morey, Chief Operating Officer of CityScape, a real estate development company, told EconOff March 5, that, with an estimated 16 million unit housing shortage in Nigeria, 2 million of which are in Lagos alone, and a middle market consumer base of 20 million people, demand for real estate is and will be largely unaffected by the economic downturn. (Note: All figures are estimates provided by government and private sources. End Note) CityScape considers individuals earning Naira 5 million to 7 million per annum (USD40,000 - 60,000) belong in the low-income housing category; those earning Naira 7 million and above per annum are viewed to be in the middle market. According to Morey, real estate developers are small in scale of operations, and no developer has been able to build over 1,000 homes in a one year period. In 2007, development reportedly started for 35,000 housing units. Hence, demand will always exceed supply, Morey argued.

13. (SBU) CityScape is currently developing two real estate projects in Port Harcourt, four in Lagos, two in Ogun State, and one in Abuja. (Note: Each project contains from 600 to 1,000 residential units. End note) Pre-sales were completed for almost all projects before they even broke ground, Morey intimated. In some cases, a secondary market emerged where buyers re-sell or swap individual or blocs of housing units at higher prices. The demand for housing has not declined along with the worsening financial and economic environment, Morey observed, and the biggest challenge for real estate developers is on-time delivery, not dwindling demand.

Housing Development Surging in Lagos State  
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14. (SBU) CityScape is developing two projects in Ogun State and four in Lagos, all concentrated in the suburban sprawl on the Lekki Peninsula. While real estate development is springing up along the Lekki Expressway, the arterial road connecting Victoria Island to Lekki, CityScape's strategy is to develop large estates as new mixed-used commercial and residential hubs further away from the main road. (Comment: CityScape's strategy dovetails with Lagos State Government's master plan to create satellite cities and mix-used residential and commercial hubs to alleviate traffic and human congestion on Victoria and Ikoyi Islands. End comment) CityScape recently obtained a 7.5 percent transfer tax exemption and became the first company to receive a license to grant title to buyers from Lagos State Government for a 355 hectare project it is developing in Lekki. These concessions, Morey contended, are evidence of the state government's keenness in encouraging more real estate development.

#### Houses Figure in Port Harcourt's "Rebranding"

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15. (SBU) CityScape is developing a 25-hectare, 1,100 unit real estate project in partnership with the Rivers State Government (RISG) as part of the RISG's plan to re-brand the city to bring back businesses and residents. (Note: RISG plans to build a USD1 billion ring road for Port Harcourt as part of the re-branding/development scheme. End Note) The project was conceived 1.5 year ago; CityScape broke ground in November 2008; and it is expected to be completed in 2011. CityScape plans to develop a second low-income, 500 unit housing project in Port Harcourt. On the viability of the two projects, Morey believes oil expatriates and Nigerians who moved out

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of the state in recent years due to deteriorating security conditions will buy the homes as lodging for their travel and will eventually move back to settle.

#### Developers Hedging for More Risk

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16. (SBU) According to Morey, construction lending is riskier than mortgages and interest rates for construction range between 18 percent and 21 percent. Prior to the financial crisis and economic downturn, buyers had to make 10 percent payment at the time of contract and 10 percent at closing. Starting in the first quarter 2009, developers are hedging for more risk by asking buyers to make 20 percent payment at the time of contract. Another problem feeding the market risk for real estate development, Morey shared, is the inconsistency in underwriting standards employed by different local banks.

#### Construction Costs Not Yet Hit by Naira's Fall

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17. (SBU) Naira depreciation has yet to affect the costs of construction materials for CityScape, so the business is still profitable at this point in time, Morey revealed. Morey claimed that, while cement prices have risen in Nigeria in the last two years, global cement prices have been relatively consistent. Large developers such as CityScape normally pay 50 percent in advance for raw materials, including sand, cement, steel, and granite, that they source into Nigeria. This standard business practice has largely buffered them from the weakening Naira. However, a continuing weakening of the naira will hit construction costs at some point, Morey projected. As a result, CityScape is looking to source their goods and materials from non-dollar denominated destinations such as South Africa.

#### Developers: Coming to Nigeria in Downturn

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18. (SBU) There has been a significant influx of real estate developers from Europe, East Asia, and South Asia in the past six months, Morey said. Real estate giant Hines is looking to enter the market with a long-term strategy, and so are companies from Korea and South Africa. Whether they came to Nigeria because of the large

market potential or because of the global economic situation is unclear, Morey opined.

#### Bubbles in Land, Rental, Not Housing

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¶9. (SBU) Rental prices for property in Victoria and Ikoyi Islands and land prices are overvalued, but the cost of construction is not, according to Morey. The money that left the Nigerian stock market following its decline in April 2008 went to land investment, inflating its prices. Morey believes the bubble in land value will burst in the near term future.

#### Shadow Costs to Doing Business

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¶10. (SBU) Extortion rackets perpetrated by "professional area boys" have significantly increased business costs for developers such as CityScape, Morey confided. (Note: "Area boys" is a local term for unemployed youths earning money through gang activities. End note) Morey said these areas boys are older and more professional, and they extort money by offering 'security services' for projects. They drive new Range Rovers and flaunt their wealth openly. This is a well-known phenomenon among developers, traditional rulers, and government authorities. However, government authorities and traditional rulers are turning a blind eye to the issue.

¶11. (SBU) Comment: Nigeria's severe housing shortage is eclipsing difficulties of the financial crisis and economic downturn. The continuing depreciation of the naira will hurt lucrative businesses such as real estate developers. A worsening of the economic

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environment will affect people's ability to buy houses and obtain mortgages, and the suppliers' ability to supply them. Reducing Nigeria's housing shortage was already critical prior to the economic downturn: the situation will only become more precarious in the future. End comment.

¶12. (U) This cable has been cleared with Embassy Abuja.

BLAIR